

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF BIG RIVERS	)	CASE NO. 96-327
ELECTRIC CORPORATION AS BILLED FROM	)	
OCTOBER 1, 1995 TO MARCH 31, 1996	)	

O R D E R

IT IS ORDERED that Big Rivers Electric Corporation ("Big Rivers") shall file an original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. The information requested herein is due no later than February 5, 1997.

1. Refer to the response to the Commission's September 6, 1996 Order, Item 4(c), Exhibit 1.

a. Why was the monthly interest rate omitted from the schedule for the months of September 1994 through July 1995? Provide the monthly interest rates used in the calculations.

b. In Case No. 94-032<sup>1</sup> the Commission ordered that from August 31, 1994 until July 1995, the carrying charge on the 1993 allowance sale net proceeds would be a fixed rate equal to Big Rivers' weighted average cost of debt as of August 31, 1994. Exhibit 1, however, indicates that Big Rivers did not use a fixed rate. Why not?

c. Provide Big Rivers' weighted average cost of debt as of August 31, 1994.

d. Was the August 31, 1994 weighted average cost of debt used in the monthly interest expense calculations shown on Exhibit 1? If no, explain why not.

2. Concerning the amortization of the Account No. 254 Balance Credit shown on Exhibit 1:

a. Provide the calculations for the monthly amortization amounts shown on this exhibit, as well as the amounts to be used throughout the entire amortization period. Include all assumptions, workpapers, and other supporting documentation.

b. Was the calculation of the amortization amounts affected by the sales expenses of \$236,992.69? If yes, how was it affected? Explain why Big Rivers treated the sales expenses as it did.

3. In its August 31, 1994 Order in Case No. 94-032, the Commission established that Big Rivers' ratepayers were to receive the proceeds from the 1993 allowance sale as well as the proceeds from the Environmental Protection Agency's

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<sup>1</sup> Case No. 94-032, Application of Big Rivers Electric Corporation to Assess a Surcharge under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements of the Clean Air Act, final Order dated August 31, 1994.

("EPA") withheld allowance auctions. In its Order the Commission assumed that Big Rivers would submit its first environmental surcharge filing in July 1995. Big Rivers, however, failed to make a timely and proper filing for July 1995. Big Rivers calculated the amortization of the 1993 allowance sale proceeds and EPA auction proceeds assuming July 1995 as its first filing.

a. Is it Big Rivers' position that its ratepayers are no longer entitled to the proceeds from these allowance sales?

b. Why did Big Rivers not make adjustments in its surcharge filings to correct the amortization of the 1993 allowance sale proceeds and EPA auction proceeds?

4. Refer to the response to the Commission's September 6, 1996 Order, Item 5. Big Rivers states that it was in error in its interpretation of the Commission's August 31, 1994 Order regarding the exclusion of the carrying charge on the unamortized balance of the 1993 allowance proceeds when determining the debt service component of the current period environmental revenue requirement.

a. Based on this statement, would Big Rivers agree that the amounts shown in its monthly environmental surcharge filings do not reflect the correct amortization of the 1993 allowance sale proceeds as ordered in Case No. 94-032? If no, explain why not.

b. Provide a revised schedule showing the amortization of the proceeds in accordance with the Commission's Order in Case No. 94-032. The schedule should

run through December 1999. Include all workpapers, assumptions, and supporting calculations.

5. Refer to the response to the Commission's July 12, 1996 Order, Item 8. Big Rivers has indicated that it uses the monthly Cantor Fitzgerald Environmental Brokerage Services market price index ("CF-MPI") to value allowances obtained through coal purchases.

a. What other approaches, methodologies, or indices, if any, did Big Rivers consider using to value the purchased allowances? If none, explain why others were not considered.

b. How did Big Rivers become aware of the CF-MPI?

6. Refer to the response to the Commission's September 6, 1996 Order, Item 8.

a. In its response to Item 8(a), Big Rivers failed to provide the requested reconciliation of reported and revised balances. Provide a reconciliation of the amounts shown for the base period and August 1995 through January 1996. Identify the dollars associated with the coal pulverizers, coal feeder scales, coal valve parts, and other stock items removed from the inventory balances in each period.

b. If amounts were removed from both base and current periods, should not the difference between base period amounts and current period amounts remain unchanged?

7. Refer to the response to the Kentucky Industrial Utility Customers ("KIUC") First Set of Data Requests, Item 3.

a. At pages 5 and 6 are ES Form 4.0 and a schedule of Big Rivers' Sales of Electricity for September 1995. Should the sum of the amount billed for Special Sales to REA Borrowers and Sales to Other Than REA Borrowers, shown on page 6, equal the Total Non-Member Sales Excluding Environmental Surcharge, shown on page 5?

b. Identify all non-member sales customers who pay the environmental surcharge.

c. At pages 10 and 19 are ES Form 4.0 and a schedule of Big Rivers' Sales of Electricity for November 1995. Reconcile the sum of the amount billed for Special Sales to REA Borrowers and Sales to Other Than REA Borrowers, shown on page 19, with the Total Non-Member Sales Excluding Environmental Surcharge, shown on page 10. Indicate the correct amount for November's Total Non-Member Sales Excluding Environmental Surcharge.

d. If the sum on page 19 is the amount that should have been reported on page 10, is a recalculation of the surcharge billing factor for November 1995 required? If no, explain why not.

e. At pages 13 and 14 are ES Form 4.0 and a schedule of Big Rivers' Sales of Electricity for January 1996. The sum of the Special Sales to REA Borrowers and Sales to Other Than REA Borrowers, on page 14, equals the Total Non-Member Sales, shown on page 13. Should the sum from page 14 equal the Total Non-Member Sales Excluding Environmental Surcharge? If no, explain why not.

f. If the sum on page 14 is the amount that should have been reported as Total Non-Member Sales Excluding Environmental Surcharge, is a recalculation of the surcharge billing factor for January 1996 required? If no, explain why not.

g. At pages 16 and 17 are a schedule of Big Rivers' Sales of Electricity and the ES Form 4.0 for December 1995. The sum of the Special Sales to REA Borrowers and Sales to Other Than REA Borrowers, on page 16, equals the Total Non-Member Sales, shown on page 17 of 67. Should the sum from page 16 equal the Total Non-Member Sales Excluding Environmental Surcharge? If no, explain why not.

h. If the sum on page 16 is the amount that should have been reported as Total Non-Member Sales Excluding Environmental Surcharge, is a recalculation of the surcharge billing factor for December 1995 required? If no, explain why not.

8. Refer to the response to the Commission's September 6, 1996 Order, Item 10. Since Big Rivers began purchasing higher sulfur coal with offsetting emission allowances for its Coleman Plant,

a. (1) Has its overall cost of coal for the Coleman Plant been lower?

(2) If lower costs of coal were incurred, would these lower costs be reflected in lower fuel charges in Big Rivers' Fuel Adjustment Clause ("FAC")?

b. Would the fuel costs related to the Coleman Plant included in the FAC be further reduced because a portion of the coal cost is allocated to the purchased allowances?

c. Is it correct that Big Rivers' emission allowance inventory has a dollar value only because of the cost allocated from coal-bundled allowance purchases for the Coleman Plant?

d. Is it correct that Big Rivers' environmental surcharge mechanism provides for the inclusion of emission allowance expense and a return on allowance inventory?

e. Is it correct that, while Big Rivers' ratepayers receive savings associated with the coal-bundled allowance purchase strategy in the FAC, the ratepayers pay costs associated with this strategy in the environmental surcharge? If no, explain why not.

f. When evaluating the cost effectiveness of the coal-bundled allowance purchase strategy, why did Big Rivers focus only on the fuel cost savings rather than also recognizing the impact the strategy would have on the environmental surcharge?

9. Refer to the response to the Commission's September 6, 1996 Order, Item 14.

a. For tax purposes, does the Internal Revenue Service ("IRS") permit emission allowances to be recorded using weighted average cost by vintage year? Provide citations to the Tax Code, IRS procedures, or IRS rulings which support Big Rivers' position.

b. For tax purposes in 1995, did Big Rivers report an emissions allowance expense based on the weighted average cost of the 1995 EPA-awarded allowances used or on the original cost of those allowances?

c. Does Big Rivers' external auditor agree with its contention that there are no differences between income tax and book accounting treatment prescribed for allowances? Provide copies of any correspondence received from the auditor on this issue.

10. Provide Big Rivers' weighted average cost of debt as of December 31, 1996.

11. Refer to the response to the Commission's July 12, 1996 Order, Item 22. For each project listed below, indicate when the project was started and completed. If the project was initiated prior to February 28, 1994, explain why it was not specifically included in Big Rivers' environmental compliance plan.

a. A-3, Potable Water Line, Scrubber Control Room to Slaker Building, Green.

b. A-4, Ash Sluice Pump Discharge Valve, Plug, Tufline, 12 inch, Green.

c. A-7, Green IUCS Building Sump Pump & Piping, Green.

d. A-13, Pipe, Thickener Overflow, G-1, Green.

e. A-14, Pipe, Support, Thickener Overflow, G-2, Green.

f. A-17, Analyzer, Limestone Particle Size, Wilson.

g. A-19, Piping, from Thickener to CSI, Wilson.



h. A-20, Pond, Landfill Runoff, with Dike, Wilson.

i. A-21, Precipitator Controls, AVC 6000, Wilson.

j. A-24, Henderson Municipal Power and Light ("HMP&L") Ash Sluice Pump "B", HMP&L 2.

k. D-1, Valve, 6 inch, Fly Ash, Hydrovactor Inlet, HMP&L-Reid.

12. In its August 31, 1994 Order in Case No. 94-032, the Commission approved the following actions as Big Rivers' compliance plan:

1. Installation of continuous emission monitors at all units and low- $\text{NO}_x$  burners at all Phase I units.

2. Installation of a scrubber at Station Two in 1995 and sharing some existing scrubber facilities with the Green Station.

3. Switching the Coleman Station to a medium-sulfur coal of 2.6 lb.  $\text{SO}_2$ /MMBtu as of 1995.

4. Increasing the percentage of  $\text{SO}_2$  removed by the existing scrubber at the Green Station and substituting Green into Phase I of the acid rain program.

5. Increasing the percentage of  $\text{SO}_2$  removed by the existing scrubber at the Wilson Station beginning in 2000.<sup>2</sup>

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<sup>2</sup> Id., at 3-4.

a. Projects A-3, A-4, A-7, A-13, and A-14 involved the Green Station. Explain how these projects directly relate to items 1, 2 or 4 of the approved compliance plan.

b. Projects A-17, A-19, A-20, and A-21 involved the Wilson Station. Explain how these projects directly relate to items 1 and 5 of the approved compliance plan.

c. Projects A-24 and D-1 involved HMP&L. Explain how these projects directly relate to items 1 and 2 of the approved compliance plan.

13. Refer to the Direct Testimony of KIUC witness Russell L. Klepper, pages 5 through 8. Mr. Klepper contends that, although Big Rivers agreed that its share of the Renewal and Replacement Fund used to finance the HMP&L Station 2 scrubber would not be recovered through the surcharge, no adjustments to the capitalized cost of the scrubber were made to reflect such an exclusion.

a. Has the portion of the scrubber financed by the Renewal and Replacement fund been included in the capitalized cost of the scrubber? If yes, explain why.

b. Does Big Rivers agree that the portion of the scrubber financed by the Renewal and Replacement Fund should be excluded from the capitalized cost? Explain.

c. Does Big Rivers agree with Mr. Klepper's proposed adjustment? If no, what adjustment, if any, would Big Rivers propose?

14. Refer to the Klepper Direct Testimony, pages 8 and 9. Does Big Rivers agree with Mr. Klepper's contention that contractor retainage balances should be deducted when computing the environmental rate base? Explain.

15. Refer to the Klepper Direct Testimony, pages 9 through 14 and Exhibit No. RLK-7. Mr. Klepper contends that under the provisions of Contract No. 814 with Costain Coal, Inc. ("Costain"), if compliance coal was to be used to meet environmental requirements at HMP&L Station 2, then it had the option to provide compliance coal at the same price that it was then providing a lesser quality coal. The excerpts from Contract No. 814 included in Exhibit No. RLK-7 appear to indicate that, upon notice from Big Rivers that it elected to use coal of more stringent quality, Costain had the right to furnish such coal at the same delivered cost as the coal furnished under Contract No. 814.

a. What efforts, if any, did Big Rivers undertake to obtain lower sulfur coal for HMP&L Station 2 from Costain during the period from January 1, 1995 through May 23, 1995? What were the results of these efforts?

b. If Big Rivers did not undertake any efforts, explain why.

c. Mr. Klepper contends that Big Rivers wasted emission allowances during the January 1, 1995 through May 23, 1995 period. Were any emissions allowance expense or return on allowance inventory related to the January 1, 1995 through May 23, 1995 period included in the environmental surcharge filings submitted during the review period? If yes, identify the filing and amount.

16. Refer to the Klepper Direct Testimony, page 16. Mr. Klepper has questioned whether Big Rivers has included revenues from the sale of Wilson ash as a reduction to environmental expenses.

a. During the review period, did Big Rivers sell ash from the Wilson or any other generating station?

b. If yes to part (a), were these revenues reflected in the calculation of the corresponding month's environmental surcharge? If yes, explain how. If no, why not?

c. Is the ash from the generating stations a scrubber by-product?

17. Refer to the Klepper Direct Testimony, page 18. Mr. Klepper questions Big Rivers' accounting treatment for off-system sales transactions made by PacifiCorp.

a. Provide all accounting entries relating to the PacifiCorp off-system sales transactions. Indicate whether revenues are recorded at gross or net.

b. Describe the required Rural Utilities Service ("RUS") Uniform System of Accounts accounting treatment for these types of sales.

c. Is the accounting treatment that Big Rivers follows for the PacifiCorp off-system sales transactions the same as is followed for any off-system sale? If no, explain why not.

18. Refer to the Direct Testimony of KIUC witness Alan S. Taylor, pages 5 through 13.

a. Does Big Rivers agree with Mr. Taylor's analysis and testimony concerning the missing data periods? Explain.

b. Did Big Rivers follow the EPA required methodologies in determining the missing data periods for 1995 for HMP&L Station 2? If yes, provide the documentary evidence to show Big Rivers' compliance. If no, explain why not.

c. Did Big Rivers over-report the SO<sub>2</sub> emissions at HMP&L Station 2 for 1995? If no, provide the evidence Big Rivers has to support this position.

19. Refer to the Taylor Direct Testimony, pages 20 through 25.

a. Is the Coleman Plant's generation sold exclusively to off-system customers? Explain.

b. Have allowance costs associated with the Coleman Plant been incorrectly allocated to jurisdictional customers? Explain.

20. Mr. Taylor has questioned the need for the allocation of cost between coal and allowances with regard to the coal-bundled allowance purchases.

a. Under the RUS Uniform System of Accounts, may the cost of allowances be included in Account No. 151, Fuel Stock? Explain.

b. If the cost of allowances is not includable in Account No. 151, does the Commission's FAC regulation prohibit the recovery of that cost through the FAC? Explain.

21. Refer to the Taylor Direct Testimony, page 24. Does Big Rivers agree with Mr. Taylor's proposed accounting process for the coal-bundled allowance purchases? Explain.

22. Refer to the Taylor Direct Testimony, pages 25 and 26.

a. Does Big Rivers agree with Mr. Taylor's view of power purchased from the Southeastern Power Administration ("SEPA") and his proposal concerning a customer credit in the surcharge for the entitlement to this power? Explain the response.

b. Describe how Big Rivers treats SEPA power purchases from the perspective of system versus off-system sales.

23. Refer to the Taylor Direct Testimony, pages 26 through 28.

a. When Big Rivers purchases power, does it generally purchase in order to make a specific off-system sale, or for general dispatch purposes?

b. If Big Rivers has purchased power for a specific off-system sale, how is that transaction tracked through the accounting system?

c. Does Big Rivers agree with Mr. Taylor that if power is purchased to make a specific off-system sale, and that purchase includes an identified environmental cost component, the environmental cost should not be included in the surcharge calculations? Explain the response.

d. Does Big Rivers agree with Mr. Taylor's recommendations concerning purchased power and associated environmental costs, contained on page 27 of his direct testimony? Explain the response.

24. Refer to the Direct Testimony of Lane Kollen, pages 13 through 18.

a. Did Big Rivers expense or capitalize the dredging of the bottom and fly ash pond on the Coleman Plant site? Explain the rationale for the accounting treatment.

b. Does Big Rivers agree with Mr. Kollen's recommendations concerning the dredging activity? Explain the response.

Done at Frankfort, Kentucky, this 27th day of January, 1997.

PUBLIC SERVICE COMMISSION

Linda K. Breathitt  
For the Commission

ATTEST:

Don Mills  
Executive Director

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF BIG RIVERS	)	CASE NO. 96-327
ELECTRIC CORPORATION AS BILLED FROM	)	
OCTOBER 1, 1995, TO MARCH 31, 1996	)	

O R D E R

Big Rivers Electric Corporation ("Big Rivers") having moved for a conference to discuss the possibility of settlement of the issues developed in this case and no party objecting to this motion, IT IS HEREBY ORDERED that:

1. Big Rivers' Motion for a Settlement Conference is granted.
2. A conference shall be held in this matter on February 10, 1997, beginning at 10:00 a.m., Eastern Time, in Hearing Room 2 of the Commission's offices at 677 Comanche Trail, Frankfort, Kentucky to discuss the possibility of settlement, the simplification of issues, the contents of the record, and any other matters that may aid in the disposition of this proceeding.
3. The following rules of procedure shall be followed at this conference:
  - a. Commission Staff may participate in the conference to the fullest extent and may be a signatory to any agreement that is reached because of this conference.
  - b. Neither the participation of any Commission Staff member in the conference discussion nor Commission Staff's entry into any settlement agreement shall



disqualify any member of Commission Staff from subsequently advising the Commission on matters raised in this case.

c. Commission Staff is **not** a party to this proceeding. Its agreement to any settlement agreement is **not** required. No agreement may be submitted to the Commission, however, unless all parties to this proceeding are signatories to such agreement.

d. Parties participating in the conference shall be deemed, for purposes of this proceeding only, to have waived any objection to Commission Staff's participation in the conference and its entry into any unanimous settlement agreement.

4. Any party who objects to the rules set forth in paragraph 3 shall file its written objections with the Commission no later than February 6, 1997. Failure to object to these rules shall be deemed to consent, for purposes of this proceeding, to these rules.

Done at Frankfort, Kentucky, this 27th day of January, 1997.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF BIG RIVERS	)	CASE NO. 96-327
ELECTRIC CORPORATION AS BILLED FROM	)	
OCTOBER 1, 1995 TO MARCH 31, 1996	)	

O R D E R

IT IS ORDERED that Kentucky Industrial Utility Customers ("KIUC") shall file an original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. The information requested herein is due no later than February 5, 1997.

1. Refer to the response to the Commission's November 6, 1996 Order, Item
2. The Commission ordered KIUC to provide its determination of the Big Rivers Electric Corporation's ("Big Rivers") over- or under-recovery of environmental surcharge for the review period as shown in ES Form 5.0, 5.1, and 5.2. KIUC's response did not include completed versions of those forms. The blank copies of the ES Forms, attached to the November 6, 1996 Order, were provided in order that a comparison between KIUC's

recovery determination could be made with Big Rivers' calculation. Provide the originally requested information using ES Forms 5.0, 5.1, 5.2, attached to this Order.

2. Refer to the response to the Commission's November 6, 1996 Order, Item 4.

a. Would Mr. Klepper agree that Big Rivers' investment in environmental compliance facilities is supported by either general funds available or by debt? If no, explain why not.

b. Would it be correct that rather than supporting Big Rivers' investment in these facilities, the contractor retainages actually are an intermediate step in the accounting process? If no, explain why not.

c. When calculating a net investment rate base, the Commission generally does not deduct liabilities like contractor retainages. Explain why the Commission should make an exception in this case.

3. Refer to the response to the Commission's November 6, 1996 Order, Items 8 and 13. One characteristic of an emission allowance is that it can be utilized in a year subsequent to its vintage year. Because of this characteristic, some utilities have chosen to hold excess allowances to meet future compliance needs, especially for the Phase II period. These utilities have reasoned that by holding these excess allowances, they will be able to defer or avoid an investment in compliance facilities, like a scrubber, in the future. In its responses to Items 8 and 13, KIUC does not discuss this possibility or its associated risks. Does KIUC believe that the possibility that banked allowances

can defer or avoid future compliance investment should be considered when deciding whether to hold or sell allowances? If no, explain why not.

4. KIUC offers two proposals where allowances which Big Rivers allegedly "wasted" are valued at the fair market value, and the resulting amount treated as a revenue offset to environmental costs included in the surcharge. In Case No. 94-032,<sup>1</sup> the Commission rejected KIUC's surcharge approach because it was not based on incurred costs and relied on speculation as to the cost of low sulfur coal. In Case Nos. 95-455<sup>2</sup> and 96-290,<sup>3</sup> the Commission rejected Louisville Gas and Electric Company's ("LG&E") arguments that wholesale surcharge revenues should be imputed as part of the surcharge calculations, noting that LG&E could only make assumptions as to an amount of wholesale surcharge revenues.

a. Why is it appropriate to base two surcharge adjustments on the assumption that Big Rivers would have sold the allowances that KIUC claims were wasted?

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<sup>1</sup> Case No. 94-032, Application of Big Rivers Electric Corporation to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements of the Clean Air Act, final Order dated August 31, 1994, at 14-15.

<sup>2</sup> Case No. 95-455, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from May 1, 1995 to October 31, 1995, final Order dated April 10, 1996, at 5.

<sup>3</sup> Case No. 96-290, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from November 1, 1995 to April 30, 1996, final Order dated November 12, 1996, at 4.

b. Given the Commission's decisions in Case Nos. 94-032, 95-455, and 96-290, explain why it is appropriate in this review to include an imputed revenue stream in the calculation of the surcharge over- or under-recovery.

5. Refer to the response to the Commission's November 6, 1996 Order, Item 9.

a. Provide the calculations, assumptions, and workpapers which support the \$2.19 and \$5.02 costs for April and May 1996.

b. Was KIUC aware that Big Rivers' inventory records show the April 1996 weighted-average cost to be \$2.2257 and the May 1996 weighted-average cost to be \$5.0789?<sup>4</sup>

c. The following statement is made in this response:

In preparing Exhibit RLK-6, no consideration was given to preparing a determination of the weighted average inventory cost of allowances wasted by Big Rivers because it was deemed that any such determination would not be relevant to the issues at question in this proceeding.

Since the scope of this review includes reconciling past surcharges with actual costs recoverable through the surcharge, why is the determination of weighted-average inventory cost not relevant to this review?

6. Refer to the response to the Commission's November 6, 1996 Order, Item 12. This response includes the statement that, "[t]he weighted-average inventory cost for the wasted allowances is not an appropriate valuation of such allowances."

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<sup>4</sup> See Big Rivers' Response to KIUC's First Data Request, Question 34, page 9 of 41.

a. How does the Rural Utilities Service's Uniform System of Accounts require Big Rivers to value emission allowances?

b. KIUC has likened emission allowances to marketable securities. Do generally accepted accounting principles require that marketable securities be carried on the balance sheet at lower of cost or market?

7. Refer to KIUC's response to Big Rivers' Data Request dated November 6, 1996, Question 8. Explain how the data shown on the 75check printout provided in the response results in the number allowances KIUC determined were wasted.

8. Refer to the response to the Commission's November 6, 1996 Order, Item 22. KIUC contends that the bundling of allowances and coal is analogous to washing and other pretreatment processes that may be used to lower the sulfur content of coal. However, as KIUC as argued in this review, emission allowances are assets which have a market value separate from the cost of coal. Since pretreatment costs of coal do not result in a separate identifiable asset, explain how the bundling of allowances and coal is analogous to coal pretreatment.

Done at Frankfort, Kentucky, this 27th day of January, 1997.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director



**BIG RIVERS ELECTRIC CORPORATION - ENVIRONMENTAL SURCHARGE  
SIX MONTH AND TWO YEAR REVIEW  
RECAP OF ENVIRONMENTAL DEBT SERVICE COMPONENTS**

[illegible]

For each Expense Month included in the 6 Month Review Period, list the appropriate components of the Environmental Debt Service Components. At the 2 Year Review, provide this information for the entire review period.  
Do Not Include Base Period information on this schedule.



**BIG RIVERS ELECTRIC CORPORATION - ENVIRONMENTAL SURCHARGE  
SIX MONTH AND TWO YEAR REVIEW**

**RECAP OF POLLUTION CONTROL OPERATING EXPENSES AND AMORTIZATION OF ALLOWANCE SALE PROCEEDS**

For the Period \_\_\_\_\_ through \_\_\_\_\_

**POLLUTION CONTROL OPERATING EXPENSES**

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Current Expense Month	Depreciation Expense	Insurance Expense	Taxes Other Than Income	Operation & Maintenance Expenses	Adminis- trative & General Expenses	Total Pollution Control Operating Expenses [Col. (2) thru (7)]

**AMORTIZATION OF 1993 EMISSION ALLOWANCE SALE PROCEEDS**

Current Expense Month	Monthly Amortization of Allowance Proceeds	Monthly Amortization of Carrying Charge

For each Expense Month included in either the 6 Month or 2 Year Review Period, list the information indicated. Do Not include Base Period information on these schedules.